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Purpose

The Review is intended to be of service to those, in business and elsewhere, who need to take a view of the general economic situation and prospects. The workings of the economy are not fully understood ; and even if they were economic prediction would remain hazardous because of the impact of political events and technological developments. Nevertheless the Institute believes that a group of economists, presenting a comprehensive account of current economic developments and a coherent view of likely trends, can perform a useful service.

Acknowledgements

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The Institute is also grateful to many people in industry for giving the authors the benefit of their knowledge and experience, and to officials in Government departments who have assisted with advice in the interpretation of official statistics.

Authorship

This Review is the joint work of members of the research staff, under the general supervision of the editors. The contents will usually be unsigned, the views expressed being the responsibility of the Director and staff. Signed articles may appear from time to time.

The members of the staff listed below contribute material for the general surveys and statistical tables. Contributors to special articles are mentioned in footnotes.

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SUMMARY

Recovery at home

The pace of recovery is faster than expected. Industrial production is rising rapidly; by May it was 5 per cent above the middle of last year. Unemployment is back to the June 1958 level, but employment is not; it has risen much less rapidly than production, and so output per man, particularly in manufacturing, has gone up sharply. Since wages have been comparatively stable in 1959, labour costs per unit of output in manufacturing must now be falling, leaving room for higher profits or lower prices.

The main forces behind the rise have been higher consumer spending, (accompanied by a renewed spurt in consumer debt) and, more recently, a sharp and unexpected rise in exports. Other types of spending have not changed much.

The rise in consumer spending should continue, since the full effects of the Budget have yet to be seen. Although fixed investment appears not to have risen in the first quarter, it is still expected to rise during the year. The increase in public investment has been slow in getting under way but new housing is picking up sharply.

The recovery has been marked in vehicles, electrical engineering, and building, and modest in textiles and clothing. It has not yet spread to ship-building or mechanical engineering (which is heavily dependent on investment demand). Steel output is rising; but the demand for coal shows no recovery as yet.

Recovery abroad

Recovery is now under way in western Europe as well as the United States. The exports of primary producing countries have stopped falling, but have not yet started to rise. The increase in British exports - judging from April/May figures - has been largely to industrial countries. Cars, capital goods, and chemicals account for the rise. Practically all the increase in car sales was to North America, which has been taking nearly half as many cars as the total British home market.

Imports in the first half-year were 6-7 per cent higher than a year earlier; about half of this is due to the ending of de-stocking, half to higher consumption. By commodity, oil accounts for roughly half the rise. There were also appreciable increases in imports of food and finished manufactures.

In general, the balance of payments outlook for the whole sterling area remains favourable. The third quarter seasonal deterioration may not be severe this year. The overseas sterling area's export earnings should be on an upward trend; and Britain's non-sterling exports, which do not drop much in the third quarter, are a larger part of the total than they were.

13 July 1959

CONTENTS

	Page
SUMMARY	1
THE ECONOMIC SITUATION	
Recovery at home Consumers' expenditure - Fixed investment - Investment in stocks - The recovery in production - Steel - Coal - Employment, unemployment and productivity - Prices	3
Recovery abroad British exports recover - The increase in imports - Balance of payments prospects	11
STATISTICAL APPENDIX	20

TEXT TABLES

Table 1.	Changes in industrial production	6
2.	Production in the metal industries	7
3.	Production of finished steel	8
4.	Coal supply and demand	9
5.	Volume of U.K. exports by area	12
6.	U.K. exports to main sterling area markets	13
7.	Exports by commodity group	14
8.	U.K. exports to the United States	15
9.	Volume of U.K. exports by commodity group	17

CHARTS

Chart 1.	Building: new orders and work done	5
2.	Steel: consumption and deliveries	8
3.	Production and productivity	10
4.	Imports and exports	13

Because of the dispute in the printing industry, this issue contains only a short general article and a truncated Statistical Appendix. In the Statistical Appendix, the latest figures only are given; most of them are provisional. Tables 7, 12 and 13, for which hardly any later figures were available, are omitted.

THE ECONOMIC SITUATION

RECOVERY AT HOME

The latest evidence strengthens the view that recovery is well under way in Britain and that the forces of recovery are spreading through the western world. In most industrial countries demand and activity are rising rapidly. Although the primary producing countries have not yet experienced much recovery in their export earnings, the impact of the recession on them is waning.

In Britain the pace of recovery looks like being rather faster than we estimated in our last issue. The official index of industrial production for March and April has now been revised upwards, and it is provisionally estimated to have risen further in May. The figures now show that industrial production in April and May was about 5 per cent higher than it was at the trough of the recession in the middle of last year. The main forces behind the recovery have been the rise in consumers' expenditure, especially expenditure on durable goods, and, more recently, the increase in exports, notably of cars. As recovery proceeds, the increase in demand and production, which so far has been principally confined to consumer goods and building, should spread to other sectors of industry.

Consumers' expenditure

The volume of consumers' expenditure (seasonally corrected) which, after the sharp increase at the end of last year, levelled out in the first quarter of 1959, has risen substantially since the Budget. Full estimates for the second quarter are not yet available. But retail sales and other data indicate that demand for both durable and non-durable goods rose after the Budget. There was an increase in expenditure on all three main groups of durable goods - cars and motor cycles, radios and electrical goods, and furniture. Amongst non-durable goods, there were increases in the volume of expenditure on clothing and food.

The increase in consumer spending on durables was accompanied by a renewed spurt in the growth of consumer debt. Personal and professional bank advances continued to grow at about the same rate as before, while hire purchase debt grew by £27 million in April and £34 million in May, compared with an average rate of growth of £21 million a month in the first quarter. At the same time, real incomes must have risen. The indirect tax concessions introduced in the Budget helped to produce a 1 per cent fall in retail prices in April and May; and although wage rates changed little, money incomes before

tax probably rose as a result of the partial recovery in employment and hours.

The reductions in direct taxation came into effect only at the end of the second quarter. Weekly-paid workers began to pay the lower rates of income tax - and to receive refunds of tax for the preceding weeks - during June, whilst monthly-paid workers began to benefit only at the end of June.

The increase in exports, which has been the second main cause of recovery, is analysed below on page 12.

Fixed investment

The evidence so far available suggests that total fixed investment changed little in the first quarter. Investment in manufacturing industry (including government expenditure on research and development) fell again, but investment by the distributive trades was higher than a year earlier and there was some increase in investment in housing. Work done on private houses increased (after allowance for seasonal variation) while work done on housing for public authorities stopped falling.

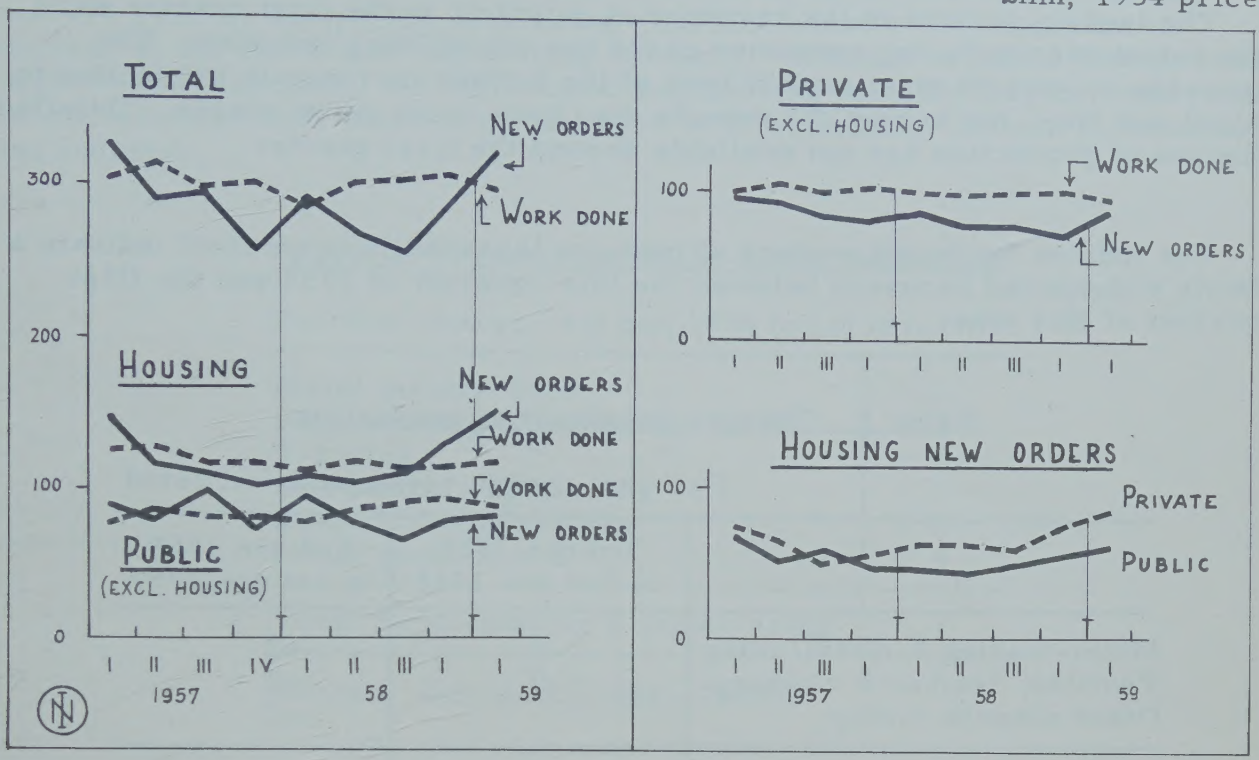
The evidence on public investment other than housing, in which an increase is due, is still incomplete. The volume of building work (other than houses) for public authorities changed little (after rough allowance for seasonal variation), but remained higher than a year earlier. There is still no evidence whether public investment in plant and machinery had begun to rise by the first quarter.

The outlook is still that total fixed investment will rise during the year. As shown in chart 1, new orders for building work have risen sharply. A rise in new orders for housing, especially private housing, has been the main cause. New orders, both public and private, for building work other than housing rose in the first quarter, but were still lower than a year earlier. There has been some increase in registrations of commercial vehicles; and the promised increase in expenditure by the public sector, notably on railway equipment and electrical plant, has yet to come through. There appear to have been greater delays in raising public investment than were expected. While this throws doubt on whether the promised increase will be achieved this year, it may mean that there will eventually be a considerable hump in public investment.

As yet there is little evidence whether private industry has started to revise its investment plans upwards. But there are some moderately encouraging signs. The total home order book for engineering goods stopped falling in the first months of the year, though that presumably was partly due to higher orders by the public authorities. The answers to the F.B.I. inquiry in June

Chart 1. Building: new orders and work done

£mn, 1954 prices



Source: Appendix table 8

suggest that more firms still intend to reduce their investment expenditure in the next twelve months than intend to increase it. But the balance on the pessimistic side, which was substantial last October, is now small. It had begun to decline at the time of the February inquiry.

Investment in stocks

Present evidence suggests that in the first quarter the rate of investment in stocks and work in progress may have declined, after allowance for seasonal variation. The ending of de-stocking of industrial materials and food appears to have been outweighed by a decline in investment in stocks of finished goods and work in progress. That would be typical of a period of recovery, when a rise in final demand causes unintended reductions in stocks of finished goods, and to a lesser extent of intermediate goods, in the interval before production can be adjusted upwards. In time, investment in stocks of finished and intermediate goods is likely to increase as firms seek to adjust their stocks upwards into line with higher turnover.

The recovery in production

The leading sectors in the recovery of output up to the first quarter were the industries producing consumer goods and the building industry. The increase in exports must explain part of the further increase in production in April and May, but in part the exports may have come out of stocks. Detailed figures of production are not available beyond the first quarter.

The indices for broad sectors of industry (seasonally corrected) indicate a fairly widespread recovery between the third quarter of 1958 and the first quarter of this year:

Table 1. Changes in industrial production

Per cent change, seasonally adjusted

	3rd qtr. 1957 to 3rd qtr. 1958	3rd qtr. 1958 to 1st qtr. 1959
Metal-making & metal-using	-5	+2
Textiles, leather & clothing	-9	+2
Other manufacturing	-	+2
Total manufacturing	-4	+3
Building & contracting	+2	+4
Mining & public utilities	-2	+2
Total industry	-3	+3

Source: Appendix table 2

But there were big differences in experience within the sectors, especially within the metal-making and metal-using industries. That may be seen from the following figures which show the changes in output in different parts of this group of industries between the first quarters of 1958 and 1959.

The only two sub-groups to show an increase in output were vehicles, which benefited from the revival in home demand for cars, and electrical engineering, where the increase reflects the rise in output of consumer durables as well as the comparative stability of demand for generating and other equipment at home. On the other hand, the mechanical engineering industry shows a significant fall in output. Its export performance was very similar to that of the electrical engineering industry, both experiencing a slight decline in this period. But it must have borne the brunt of the decline in investment in plant and machinery in private industry. Increases in production are likely to spread more widely through industry as recovery proceeds and is less confined to

consumer goods. But the contrast in the experience of these two industries may persist for some time, since the expected increase in public investment in plant and machinery, which is concentrated on electrical equipment and modern railway equipment, will bring a further considerable increase in demand to the electrical engineering industry. Although it should benefit from higher export demand, the mechanical engineering industry may not experience much recovery until there is an increase in investment by private manufacturing industry.

Table 2. Production in the metal industries

Per cent change, 1st qtr. 1958 to 1st qtr. 1959

Metal manufacture	-12
Ship-building & repairing	- 3
Vehicles	+ 5
Mechanical engineering	- 5
Electrical engineering	+ 5
Metal goods n. e. s.	- 4
Total metal-making & metal-using	- 1

Source: Board of Trade Journal

In the textile industries, there was some recovery in wool and less in cotton and man-made fibres. In other manufacturing industries, the most marked increases were in the output of furniture and paper.

Steel

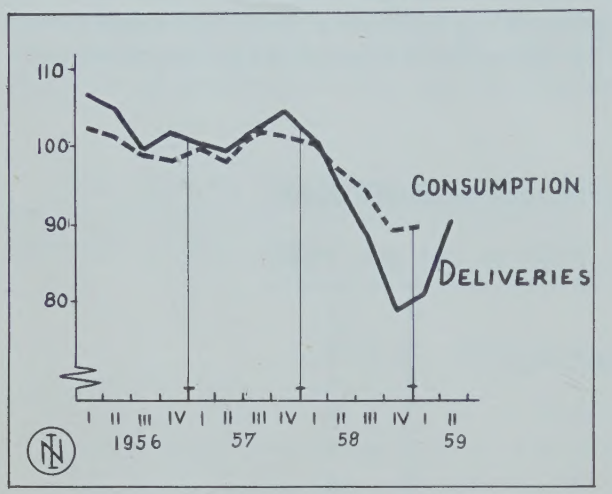
Of the two basic industries - coal and steel - which suffered particularly severely in the recession, steel is beginning to show signs of recovery.

Steel output, seasonally adjusted, is now rising - although it is still some 10 per cent below its previous peak. From the low point in the fourth quarter of last year, it rose 3 per cent in the first quarter and an estimated further 8 per cent in the second. The first quarter rise - as chart 2 shows - was the result, not of higher consumption but of reduced drawing on stocks; stock and consumption figures are not yet available for the second quarter, but it seems probable that consumption rose then.

The demand for steel has moved very unevenly since 1957, as table 3 shows. The car industry uses about half the total of strip and sheet production and accounts for more than all the increase in deliveries between 1957 and 1959. Tinplate production has been comparatively stable. Output of other steel products, accounting for some three-quarters of the total, was,

Chart 2. Steel: consumption and deliveries

Index numbers, 1st qtr. 1958 = 100
seasonally adjusted



Source: Iron & Steel Board

in the first four months of 1959, still far lower than in 1957.

Demand has again outstripped home capacity to produce sheet and has made increased imports necessary, although foreign sheets are some 30 per cent dearer than the home product. New strip mill capacity came into operation at the end of 1958 and in the first quarter of 1959 imports of sheet were a good deal lower than a year earlier; but in April and May they were substantially higher than a year earlier, and provided about 10 per cent of total supplies. This year, sheet has been imported from Germany and the Netherlands instead of from the United States; with the prospect of a steel strike before it, the United States became a net importer of steel from the United Kingdom in the first half of this year, for the first time for a number of years.

Table 3. Production of finished steel[a]

Product	Jan.-April 1957	Jan.-April 1959	'000 tons Per cent change
Sheet	717	786	+ 9.6
Hot rolled strip	420	449	+ 6.9
Tinplate, terneplate, blackplate	366	350	- 4.4
Other products	4533	3433	-24.3

Source: Monthly Digest of Statistics

(a) Including material for conversion into other products

Coal

So far there appears to have been no check to the fall in the demand for coal in spite of the recovery in industrial production. In the second half of last year inland consumption of coal was 9 per cent lower, and in the first half[(1)] of this year 8 per cent lower, than a year earlier. The mild weather

(1) 25 weeks ending 27 June, compared with 25 weeks ending 28 June 1958.

and the continuing trend to oil substitution have both tended to reduce consumption, and the fact that the steel industry, a heavy coal user, has remained comparatively depressed has tended to moderate the effects of economic recovery on the demand for coal. The coal industry should benefit a little when steel picks up.

Table 4. Coal supply and demand

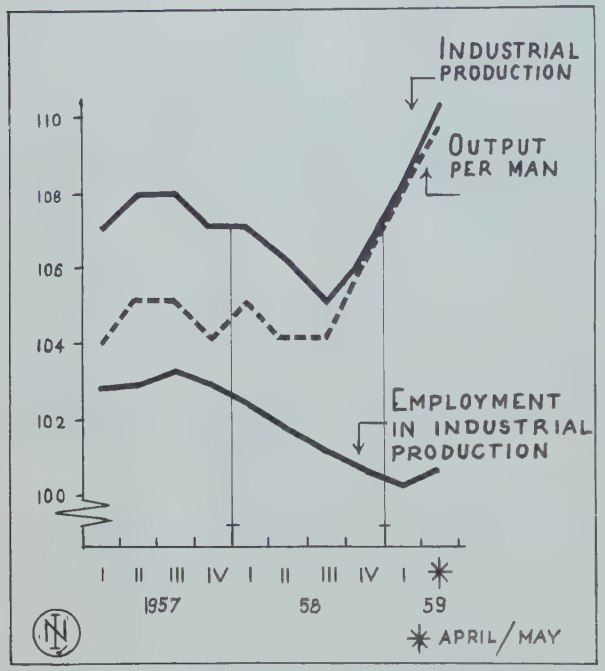
		25 weeks ending		Per cent change
		28th June 1958	27th June 1959	
Production: deep-mined	mn. tons	102.8	99.1	- 3½
open-cast	mn. tons	6.8	6.0	-12
Total	mn. tons	109.6	105.1	- 4
Employment:				
No. on colliery books	thousands	705.9	678.0	- 4
Shifts per wage-earner	number	4.62	4.37	- 5½
Voluntary absence	per cent	6.31	5.77	- 8½
Output per manshift (overall)	tons	1.26	1.34	+ 6
Inland consumption	mn. tons	106.0	97.8	- 8
Stocks at end-June	mn. tons	28.4	43.3	+52½

Source: Ministry of Power

As against the fall in consumption of 8 million tons between the first half of 1958 and the first half of 1959, production has been brought down by 4½ million tons; deep-mined coal output has fallen 3½ per cent, and open-cast, 12 per cent. There are nearly 30,000 fewer miners than a year ago, but productivity this year has improved considerably. The voluntary absence percentage is down, and the output per manshift (overall) is up by 6 per cent. For most of the year, improved productivity has been offset by a reduction in the average number of shifts worked. In June, however, slightly more shifts were worked, per man, than in June 1958, and consequently output this June was actually higher than a year ago, although the labour force was 4 per cent smaller. Stocks are therefore still rising fast. They were equal to six weeks' home consumption in the middle of 1957, seven weeks' in the middle of 1958, and twelve weeks' in the middle of this year.

Chart 3. Production and productivity

Index numbers, 1954 = 100
seasonally adjusted



Source: Appendix table 2

The recovery in industrial production has been achieved mainly by higher output per man and has not led to any substantial increase in employment. Unemployment, seasonally adjusted, has been falling since February, and by mid-June it was slightly lower than in mid-June 1958; unfilled vacancies were then slightly higher than a year earlier. This suggests that the demand for labour is a little stronger than a year ago.

The seasonally adjusted employment figure, on the other hand, showed no significant rise before May, and then it only recovered to its December level. It seems, therefore, that the total labour force was still falling up to April. Making the assumption that civil employment rose to the full extent of the decline in unemployment between May and June, that would still leave about 150 thousand fewer persons at work (in civil employment or the Armed Forces) than in June 1958, and 400 thousand fewer than in June 1957.

In industry, employment in April/May was 1½ per cent lower, while industrial production was about 4½ per cent higher, than in April/May 1958. Output per person employed has risen rapidly (chart 3) as it has done in the United States during the recovery there.(1)

Prices

Prices have remained remarkably stable in recent months. The retail price index in May was 1 per cent below the peak reached in January. The reductions in indirect taxes in April account for most of the fall. Wholesale prices, both of materials and finished goods, and export prices have remained virtually stable. Usually at this season the retail price index rises because

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(1) National Institute Economic Review, no. 3, pages 8 and 23.

of a rise in the index for fruit and vegetables, resulting principally from the difference between the prices of old and new potatoes. The price of old potatoes, however, was high last winter because of the short potato crop, and the introduction of new potatoes into the index may therefore have little effect this year.

The prospect for price stability in the coming months remains good. Import prices both of food and industrial materials show no marked trend up or down. It is true that the British Transport Commission's passenger fares are likely to go up in the autumn; but it would take about a 20 per cent rise here to raise the retail price index by a quarter of a point. With productivity rising rapidly and wages virtually stable in the lull between wage rounds, labour costs per unit of output must now be falling, providing scope for lower prices or higher profits. This must be most pronounced in manufacturing industry where the productivity gain is greatest. There is the risk that later in the year the atmosphere of recovery, especially if combined with sharp increases in profits, will give rise to larger wage increases. Because manufacturing enjoys the most rapid increases in productivity, reductions in the prices of manufactures are in the long run a necessary condition of general price stability. Price cuts here, with less rapid increases in profits, might encourage moderation in wage settlements.

RECOVERY ABROAD

The forces of economic recovery are now gaining strength almost everywhere among the industrial countries. In the United States production continues to rise and no longer seems to be based chiefly on the upswing in the stock cycle. Provisional estimates for the second quarter suggest that increases in consumption and in fixed investment are becoming more important factors in the expansion. In western Europe, the expansion is becoming more widespread. The upward trend in Western Germany is now marked: the gross national product in the second quarter, at constant prices, is expected to be some 4 per cent above that of a year before. The main factors are the rise in exports and the building boom; consumption and private investment demand, except building, are rising more slowly. In France, production now appears to be increasing again, the substantial rise in export volume being a major element in the recent expansion. Activity in the Netherlands continues to rise; and there are some recent signs of revival in Belgium and the Scandinavian countries. The revival of activity has been accompanied by a marked revival of trade among the industrial countries. The volume of intra-trade among members of the European Economic Community in the first quarter is estimated to be 8 per cent above that of a year before.

Among the primary producing countries there are few indications yet of

general expansion. The value of their exports appears to have stopped falling in the fourth quarter of last year and the first quarter of 1959. It may now have begun to rise a little since primary prices have risen since then. Largely because of the more favourable movement of prices, the overseas sterling area countries are rather better placed than other primary producers.

British exports recover

The sharp spurt in exports in April and May was not maintained in June. However, in the second quarter as a whole, the volume of exports, seasonally adjusted, regained the previous peak reached in mid-1957 and was about 7 per cent above the fairly stable level held during most of 1958 and the first quarter of 1959 (chart 4).

The recovery in April/May, the latest months for which detailed figures are available, was due chiefly to the higher exports to industrial countries (table 5). In these two months exports, by volume, were 10 per cent higher than in the middle of 1958. Of this increase, over half is explained by the 40 per cent rise in the volume of exports to North America - almost entirely to the United States. The rest is due chiefly to the 10 per cent rise in exports to western Europe.

Table 5. Volume of U.K. exports by area

Index numbers, 1954 = 100, seasonally adjusted

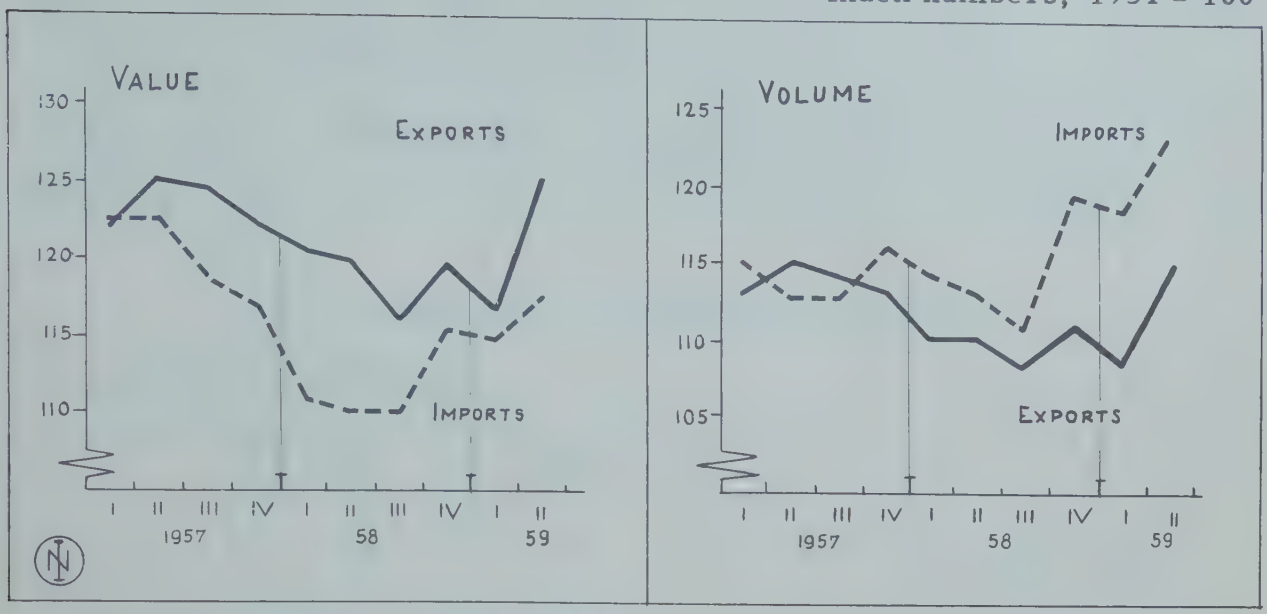
Area	Exports in 1958 £mn	1957	1958			1959	
			I	II/III	IV	I	April/May[a]
Western Europe	835	116	107	107	107	109	118
North America	461	143	147	147	168	169	206
Sterling area	1429	105	105	101	99	90	101
Other primary producers	366	120	116	115	110	117	112
Total all areas[b]	3172	113	110	110/108	111	108	119[c]

Source: Appendix tables 11 and 13

(a) These figures are only approximate.
(b) Including areas not separately shown. Adjusted for effect of dock strikes; the adjustments have not been made for the individual areas.
(c) The figure for the second quarter is provisionally estimated at 115.

Chart 4. Imports and exports

Index numbers, 1954 = 100



Source: Appendix table 11

Exports to the sterling area rose in April/May, but were still about 5 per cent lower than in 1957. The increase, which was not expected to begin so soon, results principally from increased sales to India - where special shipments for the steelworks programme have been important - and to West Africa (table 6).

Table 6. U.K. exports to main sterling area markets

	Value in 1957	Percentage change 1958 to 1959	
	£mn	First quarter	April/May
Australia	235	-14	- 7
India	176	- 4	+26
South Africa	173	-32	-17
New Zealand	140	-43	-15
Irish Republic	103	-14	- 1
Malaya-Singapore	78	-21	-13
Rhodesia	60	-26	-
Nigeria	58	+ 9	+33
Ghana	38	+22	+27

Source: Trade and Navigation Accounts

The basis for a wider recovery in our exports to the sterling area should be strengthened by the rising world demand for their export products. The fall in the value of the overseas sterling area's total exports came to an end in late 1958 or early 1959 and the subsequent rise in commodity prices should imply some recovery in export income in the second quarter; by June, the National Institute's index of prices of overseas sterling area exports had risen 5 per cent from the low point reached early in 1959. British exports to primary producing countries outside the sterling area have not shown any signs of recovery; there has so far been very little rise in their export prices.

Table 7. U.K. exports by commodity group

£mn per month

	April/May 1958	April/May 1959	Change
Food, beverages and tobacco	15.9	15.7	- 0.2
Basic materials	9.3	11.5	+ 2.2
Mineral fuels	9.6	9.5	- 0.1
Manufactures			
of which:			
Metals	37.7	37.9	+ 0.2
Engineering products	122.4	140.0	+17.6
of which:			
Motor cars	16.2	22.8	+ 6.6
Aircraft	9.0	10.0	+ 1.0
Ships and boats	4.7	5.5	+ 0.8
Machinery	69.9	78.9	+ 9.0
Textiles	21.5	21.8	+ 0.3
Chemicals	22.1	25.5	+ 3.4
Other manufactures	28.8	29.0	+ 0.2
Total[a]	273.1	296.7	+23.6

Source: Trade and Navigation Accounts

(a) Including also postal packages and live animals.

Motor cars, capital goods and chemicals account for the recent rise in British exports. Of the increase in April/May 1959 compared with the same months of 1958, (table 7), machinery accounts for two-fifths and cars for more than one-quarter; practically the whole increase in car sales was to North America. Of the rise in British exports to the United States so far this year, (table 8), cars account for more than one-third. Cars are also the major item in the smaller rise in exports to Canada. British cars are still no more than 5 per cent of total new car sales in North America; but the North American market now takes 60 per cent of our total car exports and over

one-quarter of our total car production - nearly half as much as the British home market.

Table 8. U.K. exports to the United States

£ million

	January/May		Increase
	1958	1959	
Total	105.9	147.5	41.7
Items increasing by £1 mn. or more			
Wool (raw, tops & noils)	2.9	4.8	1.9
Chemicals	3.2	4.8	1.5
Plate & sheet glass	0.4	1.7	1.3
Iron & steel	2.5	3.5	1.1
Tin & tin alloys	2.3	5.8	3.6
Machinery, non-electric	10.4	17.3	6.9
Electric generating sets, generators & motors	0.5	1.6	1.1
Electric cables	0.3	3.1[a]	2.8[a]
Cars, new	24.5	38.8	14.3
Total of above	46.9	81.4	34.5

Source: Trade and Navigation Accounts

(a) Mainly a single consignment of submarine cable exported in April 1959.

The United Kingdom was not the only country to experience an export expansion in the Spring. In April and May, Western Germany's exports were 10 per cent higher in value than a year before, compared with a 3 per cent rise in the first quarter. French exports have been rising fairly steadily since the autumn. On the other hand, United States exports of finished manufactures were still, up to April, around 5 per cent lower than a year before.

British exports should continue to benefit as the recovery in world demand should now spread more widely, particularly in the sterling area. It seems clear that the high volume of British exports in April and May owes something to temporary factors. The shortening of order books in the engineering industry, which was continuous up to April (the latest figure), and the possibility of meeting current orders out of stocks, may have allowed some exceptionally quick deliveries. But exports are bound to fluctuate a good deal from month to month. If the second quarter level were on average no more

than maintained during the next few months (apart from seasonal variations), this would in itself represent a substantial revival.

The increase in imports

So far in 1959, the arrival prices of imports have been falling while the volume of imports - though somewhat erratically - has been rising. The increase in the volume of imports has been greater than the increase in the volume of exports, but, owing to the improvement in the terms of trade, the difference in the course of the value figures has been less (chart 3). The National Institute's index of the prices currently being paid for imports on commodity markets increased slightly in May and remained at about the same level in June. That may mean that the gain from falling import prices may soon cease. It is remarkable that recovery has so far been accompanied by falling import prices. But at present there seems no reason to expect a significant rise.

Taking the first six months as a whole, the volume of imports was 6 to 7 per cent higher than a year earlier. About half the increase appears to have been due to the ending of the de-stocking of imported commodities, which had saved over £50 million of imports in the first half of 1958. On the other hand, there was a decline of £15 million (in January to May) in imports of rubber for re-export to the Soviet Union. The net increase in domestic consumption of imports was probably not more than 2 or 3 per cent.

Of the increase in import volume in January to May, as compared with a year before, almost half was due to the rise of more than a quarter in imports of both crude oil and petroleum products (table 9). Deliveries of petroleum products for inland consumption rose by 16 per cent, so that part of the increased imports must have gone into stocks, which were falling in early 1958. The other major increase was in imports of food and beverages which rose by over 5 per cent in volume. Part of this increase, too, is explained by a change from the running down to the building up of stocks. There was also a further increase in imports of finished manufactures. The increase in food imports, after adjustment for stocks, is in line with the trend of recent years, but the increases in petroleum and in finished manufactures were much more rapid than before.(1)

By contrast, imports of industrial materials rose only about 2 per cent in volume, with increases in most categories except iron and steel (although, as pointed out on page 8, imports of sheet steel are increasing again). There

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(1) See 'Imports and Expansion', National Institute Economic Review, no. 2, especially tables 21, 27 and 30.

Table 9. Volume of U.K. imports by commodity groups

Index numbers, 1954 = 100

	Total imports 1958 £mn	1959 1st qtr.	1959 2nd qtr.	1959 1st qtr.	1959 April/May[a]
Food and beverages	1406	120	119	127	124-5
Tobacco	87	51	68	42	60
Basic materials	899	95	92	93	95-6
Semi-manufactures	586	125	113	120	127
Fuels	441	114	116	134	159
of which: petroleum & products	434	118	121	140	165
Finished manufactures	316	160	159	166	190
Total imports[b]	3752	114	110	116	121-2[c]
Total imports, adjusted[d]		114	113	118	121-2

Source: Appendix table 12

(a) Approximate.
(b) Including some items not specified.
(c) The second quarter figure is provisionally estimated at 122-3.
(d) For dock strikes and statistical disturbances.

was probably some reduction in the rate at which stocks of materials were being drawn down, certainly in the first quarter. Allowing also for reduced rubber imports for re-export, the increase in consumption of imports of industrial materials seems approximately in line with the rise of 2 per cent in industrial production in January-May 1959 as compared with a year before. The accelerated increase in imports in April and May also appears to reflect the more marked upturn in industrial production in the spring.

With rising activity and perhaps some rise in import prices, it must be expected that imports will continue to increase both for consumption and for stock-building.

Balance of payments prospects

The United Kingdom's surplus on current account is officially estimated at £78 million for the first quarter of 1959. Judging from the trade figures, the surplus for the first half of the year is likely to be about £150 million, as expected in our last number. This compares with the revised official

estimates of £277 million in the first half of 1958 and £161 million in the second half. Both imports and exports are likely to be greater in value in the second half of 1959 than in the first half; further, the end-year interest payments to North America and the adverse seasonal movement in foreign travel payments and other invisible transactions are likely to reduce the current surplus.

The current balance of the overseas sterling area was probably improving in early 1959, with exports levelling out after their decline in 1958 but imports still falling. The improvement in the trade balance of the area has been supplemented by a continued inflow of capital, and reserves are now rising. Sterling holdings of the overseas sterling area rose by £57 million in the first quarter and by March were nearly £100 million above the low point reached in September 1958. The trend of overseas sterling area exports should be upwards during the rest of the year, while the rise in imports may follow more slowly.

The gold and foreign exchange reserves have increased each month in 1959 except in March and May, the months when £71 million and £58 million were paid to the International Monetary Fund for debt repayment and then for the increase in Britain's gold quota. Had it not been for these two payments, the reserves would have increased by £166 million in the first half of 1959. This compares with a rise of nearly £300 million in the first half of 1958, when there were no large exceptional transactions. The difference may be partly due to the reduction in the United Kingdom's current surplus from the remarkably high level in the first half of 1958; but this may well have been offset by an improvement in the non-sterling balance of the overseas sterling area. The major reason for the reduced rate of increase of the reserves was the smaller inflow of short-term capital, for which the rise in United States short-term interest rates may be partly responsible. The yield differential between United Kingdom and United States treasury bills, which was 4½ per cent in London's favour in early 1958, has been less than ½ per cent since the beginning of 1959 and has now practically disappeared, while the forward dollar premium is very small. Thus the arbitrage margin is now negligible. This change is also reflected in the balance of payments statistics for the United States in the first quarter of 1959. The United States' current balance on goods and services (excluding military transfers) became negative for the first time in any quarter since the third quarter of 1953, but gold sales were much reduced and there was an inflow of foreign private funds into American securities and bank deposits.

Seasonal factors normally cause some deterioration in the sterling area's payments in the third quarter. There is, however, some chance that the deterioration may not be severe this year. The usual fall in overseas sterling area exports, especially of wool and cocoa, may be modified this year by the rising trend in demand. At the same time United Kingdom exports to North America, which are much less susceptible to seasonal influences, are an increasing proportion of total sterling area earnings.

With Britain's balance still well in surplus and the balance of the rest of the sterling area showing signs of improvement, the position of the sterling area as a whole has been well maintained during the early stages of recovery; and the outlook is still favourable.

Table 1. Gross domestic product

Seasonally adjusted

	Expenditure									Output					
	Consumers' expenditure	Public authorities' current spending	Gross fixed investment	Value of physical stock change	Exports of goods and services	Total final expenditure	*Less* Imports of goods and services (*a*)	Statistical discrepancy	Gross domestic product	Gross domestic product	Industrial production (*b*)	Agriculture, etc.	Transport, communication	Distribution	Other services
	£ million, 1954 factor cost, quarterly averages									*Index numbers, 1954 = 100*					
'59 I	2,835	..	..	..	940	..	1,066	..	4,210	108	108	108	110	110	103

Table 2. Production and employment in industry

Index numbers, 1954 = 100, seasonally adjusted

	Production							Employment(*b*)							Output per person employed in industry
	Total industrial production	Building, contracting	Mining, public utilities	Total manufacturing	Metals, metal using	Textiles, leather, clothing	Other manufacturing	Total industrial production	Building, contracting	Mining, public utilities	Total manufacturing	Metals, metal using	Textiles, leather, clothing	Other manufacturing	
Weight(*a*)	1,000	120	120	760	374	114	272	11.38	1.31	1.24	8.83	4.31	1.70	2.82	
'59 Feb.	107		104	108	109	92	113	100·1	101·5	98·0	100·2	103·9	87·1	102·4	107
Mar.	109		100	110	114	92	113	100·2	102·1	97·7	100·3	104·0	87·3	102·5	109
Apr.	110			111				100·3	102·2	97·4	100·5	104·2	87·4	102·6	110
May	110–11							100·5	102·7	96·9	100·7	104·4	87·6	103·0	110

Table 3. The labour market

Seasonally adjusted

	Employment					Demand for labour			Unemployment by industry						Net overtime per head in manufacturing (*b*)
	Total civil employees	Agriculture etc.	Transport, communications	Distribution	Other services	Unemployment	Unfilled vacancies	Excess demand (*a*)	Metals, metal using	Textiles, leather, clothing	Other manufacturing	Building, contracting	Mining, public utilities	Transport, other services	
	Index numbers, 1954 = 100					*Percentage of total employees*									*Weekly hours*
'59 Apr.	100·9	84·6	97·0	108·4	102·5	2·36	0·83	−0·90	2·13	2·79	2·09	4·74	0·94	2·39	
May	101·0	85·5	97·0	108·5	102·4	2·24	0·88	−0·80	1·96	2·42	1·90	4·36	0·98	2·31	
June						2·08	0·96	−0·6	1·58	1·86	1·53	4·38	0·93	2·30	

Table 4. Prices

Index numbers, 1954 = 100

	Capital goods				Export prices	Retail prices	Consumer goods and services								Total final prices
	All assets	Plant, vehicles, etc.	Dwellings	Other building			Total	Food	Drink, tobacco	Housing (inc. rent and rates)	Durable goods	Clothing	All other goods	Services	
'59 Apr.					109	117·7	114·3	115·1	104·4	135·5	108·1	104·6	115·0	120·3	
May					109	117·3	113·9	114·6	104·4	135·7	108·1	104·6	112·2	120·4	

Table 5. Wages, profits, and other costs

Index numbers, 1954 = 100

	Weekly wage rates	Wage rates by industry							Income from employment (a)		Profits of companies and public corporations	All property income		Import prices	Materials used in manufacturing industry
		Metals, metal-using	Textiles, leather, clothing	Other manufacturing	Mining, public utilities	Building, contracting	Agriculture forestry, fishing	Services	Total	Per unit of output		Total	Per unit of output		
'59 Apr.	128·4	129·0	124·3	128·3	131·0	129·1	130·6	127·5						96	101·2
May	128·5	129·0	124·6	128·5	131·0	129·1	130·6	127·6						97	101·8

Table 6. Personal income and expenditure

£ million, quarterly averages, seasonally adjusted

	Disposable income (a)	Total personal savings	Consumers' expenditure	Consumers' expenditure											
				Total	Food	Alcoholic drinks	Tobacco	Housing (inc. rent and rates)	Fuel, light	Clothing	Durable goods: Cars, motor cycles	Durable goods: Furniture, etc.	Durable goods: Radio, electric, etc.	All other goods	Services
	at current prices			*at 1954 prices*											
'59 I	4,180	380	3,800	3,305	1,033	219	228	269	143	334	86	102	89	382	420
II *					1,043		238	269	141	342	102	112	107		421

* April/May figures at quarterly rate

Table 8. Building orders and work done (a)

£ million, 1954 prices, quarterly averages

	Housing	Other buildings and works: Public	Other buildings and works: Private: Industrial	Other buildings and works: Private: Other
	New orders received			
'59 I	152	82	43	46
	New work done			
'59 I	115	85	52	42

Table 9. Changes in the volume of stocks

£ million, 1954 prices, quarterly averages

	Total stocks (a)	Manufacturing and Distribution: Total	Manufacturing: Total	Manufacturing: Materials and fuel	Manufacturing: Work in progress	Manufacturing: Finished goods	Wholesale: Industrial materials	Wholesale: Manufactured goods	Retail
Value at end 1957	8,414	6,031	4,223	1,824	1,435	964	319	700	789
'58 IV	-38	-82	-44	-28	-18	+2	+3	-35	-6
'59 I			+4	-13	+3	+14			+21

Table 10. Finance

Quarterly averages

	Money supply: per cent of total final sales	London Clearing Banks: Liquidity ratio	London Clearing Banks: Advances: Total	London Clearing Banks: Advances: Nationalised industries	New capital issues: Overseas	New capital issues: Local authorities	New capital issues: Manufacturing, distribution	New capital issues: Other	Treasury bills outstanding	Hire purchase debt: Total	Hire purchase debt: Owing to finance houses	Hire purchase debt: Owing to household goods shops	Yields: On 2½% Consols	Yields: On ordinary shares
	per cent		*£mn., change in period*		*£ million*				*£ million, change in period*				*per cent*	
'59 Apr.		31·2	+144	+4					+118	+81	+60	+21	4·83	5·10
May		30·9	+165	-3					+45	+102			4·87	4·94
June		32·3	+87											

Table 11. U.K. imports and exports and changes in imported stocks

Quarterly averages

	Imports				Exports (exc. re-exports)				Balance of visible trade as recorded (*b*)	Terms of trade import/export	Stock changes of mainly imported commodities				
	Value c.i.f.		Volume		Value f.o.b.		Volume				Total	Total	Food and tobacco	Industrial materials	Fuel
	As recorded	Adjusted (*a*)	As recorded	Adjusted (*a*)	As recorded	Adjusted (*a*)	As recorded	Adjusted (*a*)							
	£mn.		1954 = 100		£mn.		1954 = 100		£mn.	1954 = 100	Current prices	1954 prices, £mn. c.i.f.			
'59 I	942	962	116	118	791	781	111	108	-117	90		+ 5·2	+14·3	-8·6	+0·5
II	986	986		122-3	845	835		115	-110						
May	933	933		116-7	898	858		118	- 4	89					
June	994	994		122-3	751	772		106	-210						

Table 14. Trade of industrial countries

$ billion, quarterly averages

	Total (*a*)			U.S.A.			Canada			U.K.			Continental O.E.E.C. (*a*)		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
'59 I	15·60	16·33	-0·73	4·14	3·87	+0·27	1·14	1·38	-0·24	2·31	2·64	-0·33	7·28	7·67	-0·39
II				4·41	3·68	+0·73	1·22	1·61	-0·39	2·45	2·77	-0·32			

Table 14 (contd.). Trade of industrial countries

$ billion, quarterly averages

	Western Germany			France			Italy			Netherlands			Japan		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
'59 I	2·12	1·80	+0·32	1·18	1·20	-0·01	0·62	0·76	-0·14	0·81	0·90	-0·09	0·73	0·79	-0·06
II	2·40	2·06	+0·34	1·16	1·13	+0·03	0·75	0·88	-0·13	0·87	0·97	-0·10	0·78	0·90	-0·12

Table 15. Trade of primary producing countries

$ billion, quarterly averages

	Total			Overseas Sterling Area			Australia			New Zealand			India		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
'58 IV	7·44	8·42	-0·98	3·25	3·64	-0·39	0·48	0·51	-0·03	0·14	0·20	-0·06	0·33	0·44	-0·11
'59 I	7·26	7·47	-0·21	3·21	3·36	-0·15	0·46	0·50	-0·04	0·22	0·14	+0·08	0·28	0·40	-0·12

Table 15 (contd.). Trade of primary producing countries

$ billion, quarterly averages

	Pakistan			South Africa			Malaya			Latin America excluding Venezuela			Others		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
'58 IV	0·08	0·09	-0·01	0·28	0·38	-0·10	0·31	0·32	-0·01	1·50	1·66	-0·16	2·65	3·08	-0·43
'59 II	0·07	0·09	-0·01	0·28	0·36	-0·08	0·31	0·29	+0·02						

Table 16. World industrial production

Index numbers, 1953 = 100, seasonally adjusted

	World (a) (b)	U.S.A.	Canada	U.K.	Continental O.E.E.C.	Western Germany	France	Italy	Belgium	Sweden	Netherlands	Austria	Latin America (a)	Japan (a)	U.S.S.R.
'59 Jan.		107	122	116	144	151	149	147	114	121	130	148		174	
Feb.		108	125	115	144	154	155	150	111	122	133	152		189	
Mar.		110	124	118	145	158	153	144	114	123	133	145			
April		112		119	147	157	156	162		120	135				
May		113					156								

Table 17. The United States(a)

Quarterly averages, seasonally adjusted (b

	Gross national product	Consumers' expenditure		Public spending on goods and services		Gross private fixed investment		Value of physical changes in stocks	Net foreign investment	Durable goods		Building and contracting orders	Unemployment (b)	Employment (c)	Consumer prices (c)
		Durable goods	Other goods and services	Federal	Other	Dwellings	Other			Manufacturers' sales	Manufacturers' new orders				
	$ billion, at constant 1954 prices									*$ billion at current prices*			*per cent*	*millions*	*1954 = 100*
'59 I	104·5	9·40	60·1	11·4	9·00	4·80	8·83	1·43	−0·48	41·79	44·13	9·1	6·0	63·09	107·8
II	106·6														
April										45·37	46·75	9·8	5·3	65·01	107·9
May													4·9	66·02	108·0

Table 18. Industrial countries : imports by volume and import and export prices

Index numbers, 1953 = 100

	Volume of imports						Import prices				Export prices				
	U.S.A.	U.K.	OEEC. incl. U.K.		Western Germany	France	U.S.A.	U.K.	Western Germany	France	U.S.A.	U.K.	Western Germany	France	Japan
			From outside	Intra-trade											
'59 I		117			206	139		97	92	178		108	101	88	89

Table 19. Industrial countries' exports of manufactures

	Volume							Value, Total	Shares					
	Total	U.S.A. (a)	U.K.	Western Germany	France	Japan	Others (b)		U.S.A. (a)	U.K. (c)	Western Germany	France	Japan	Others (b)
	Index numbers, 1953 = 100							*$ bn., quarterly averages*	*Per cent of total value*					
'59 I	142	115	115	205	149	271	137	10·1	23·0	18·5	18·5	8·5	6·3	25·2

Table 20. Commodity prices

	N.I.E.S.R. price index numbers (a)						Commodity prices													
	Current U.K. import prices				Exports, primary producers	Exports, overseas sterling area	Wheat	Sugar	Tea	Coffee	Cocoa	Rubber	Jute	Cotton	Wool		Copper	Lead	Zinc	Tin	Softwood
	Total	Food, tobacco	Industrial materials	Fuels			Can. $ per 60 lb.	U.S. cents per lb.	rupees per lb.	U.S. cents per lb.	U.S. cents per lb.	d. per lb.	£ per ton	U.S. cents per lb.	Merino d. per lb.	Cross-bred d. per lb.	£ per ton	£ per ton	£ per ton	£ per ton	Index
	Oct. 1956—Sept. 1957 = 100				*Index numbers 1954 = 100*		*Average of daily or weekly prices*														*1954 = 100*
'59 Apr.	88·9	89·8	90·2	83·1	89·9	92·9	1·68	2·87	2·01	37·5	37·8	27·7	115	36·0	94	68	240	69	73	782	94
May	89·7	90·5	91·2	82·9	92·3	94·8	1·68	2·93	2·11	37·0	37·5	29·8	116	36·3	93	69	236	71	77	784	95
June	89·5	91·2	90·3	82·4	91·3	93·5	1·68	2·81	2·02	36·4	37·4	27·8	111	36·0	86	63	228	69	78	789	

Table 21. Gold and foreign exchange reserves (a)

$ billion

	Industrial countries											Primary producing countries									
	Total	U.S.A.	Canada	U.K.	Continental O.E.E.C.	Western Germany	France	Italy	Netherlands	Belgium	Japan	Total	Sterling area countries	Australia	New Zealand	India	Pakistan	South Africa	Malaya	Oil producers	Latin America excl. Venezuela
'59 Mar.		20·49	1·90	3·14		5·63			1·42	1·41	0·97			0·90	0·22	0·70	0·26	0·33	0·43		
April		20·36	1·92	3·25		5·44			1·42	1·48	1·01			0·94	0·23	0·67	0·26				
May		20·23	1·93	3·12		5·55			1·37	1·49	1·07				0·24	0·67	0·26				
June		19·70		3·17		5·34	1·63														

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